

WMECo-IR-3-1: Please identify each and every regulatory or judicial proceeding (by stating agency or court, docket number and state) in which Mr. Monson [sic] has participated as a witness or consultant in the last three years and, for each such proceeding, provide:

- a. copy of any pre-filed testimony submitted by Mr. Monson [sic];
- b. a copy of the transcript of the hearings days during which Mr. Monson [sic] was examined;
- c. A copy of the relevant decision(s) of the agency or court before which such testimony was given, where the term "relevant" includes at a minimum any decision(s) regarding the matters to which Mr. Monson's [sic] testimony related, whether or not Mr. Monson [sic] was mentioned by name in such decision;
- d. a copy of any decision by any other state or federal court relating to the decisions identified in response to c, above, including appeals court decisions or court decision resulting from any collateral attack on the decision(s) identified in response to c., above.

RESPONSE:

- a. I have participated as a consultant in a number of regulatory and judicial proceedings in the last three years; however, in none of these have I submitted pre-filed testimony. These proceedings include:
 - New Hampshire Public Utilities Commission, Docket No. 96-150, Statewide Electric Utility Restructuring;
 - MEdCo D.P.U./D.T.E. 96-25 & BECo D.P.U./D.T.E. 96-23 analyses;
 - Pennsylvania Public Utility Commission, Docket No. R-00974104, Application of Duquesne Light Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utilities Code;

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- Pennsylvania Public Utility Commission, Docket No. R-00973981, Application of West Penn Power Company for Approval of a Restructuring Plan Pursuant to 66 Pa. C.S. §2806(d);
 - Pennsylvania Public Utility Commission, Docket No. 00974009, Application of Pennsylvania Electric Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utilities Code;
 - California Public Utilities Commission, Application No. 88-12-035, Proposed Merger of Southern California Edison and San Diego Gas & Electric;
 - California Public Utilities Commission, Application 96-10-038, Proposed Merger of Pacific Enterprises and Enova Corporation; and
 - California Public Utilities Commission, Application 96-08-01, et al., Application of Pacific Gas & Electric for Approval of Valuation and Categorization of Non-Nuclear Generation-Related Sunk Costs Eligible for Recovery in the Competition Transition Charge and Consolidated Proceedings.
- b. I do not have copies of transcripts of those proceedings.
- c. I do not have a copy of the New Hampshire Public Utilities Commission decision but the Company's affiliates surely do. The two Massachusetts decisions are available from the Department. All three Pennsylvania decisions will be provided as a supplement to this response. Two of the California decisions will also be provided in a supplement, and a decision has not yet been rendered in California Public Utilities Commission, Application 96-08-01.
- d. I do not have copies of such decisions.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-2
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-2: Please list the other principle of MRW & Associates.

RESPONSE: Robert B. Weisenmiller, Ph.D. and Steven C. McClary are the other principals of MRW & Associates, Inc.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-3
Witness: Mr. Monsen
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WMECo-IR-3-3: Please list the energy consumers and producers for whom MRW has provided economic and financial consulting assistance.

RESPONSE: MRW has provided economic and financial consulting assistance to a wide range of clients. A list of clients, MRW's representation of which is in the public domain, to which the Company has provided consulting services in the last 12 months is presented in Attachment WMECo-IR-3-3.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-4
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-4: Please provide the name of the “private client” for whom Mr. Monson [sic] is said to have developed transition costs relating to Public Service of New Hampshire.

RESPONSE: New Hampshire Businesses for Fair Electric Rates.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-5
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-5: Please provide the estimates of transition costs prepared for the “private client” in regard to Public Service of New Hampshire transition costs.

RESPONSE: See Attachment WMECo-IR-3-5.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-6
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-6: Please state when the estimates of transition costs for the “private client in regard to the Public Service of New Hampshire were performed.

RESPONSE: Fall of 1995.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-7
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-7: Please explain what is meant by “assisting a colleague with the evaluation of Public Service of New Hampshire’s restructuring proposal.”

RESPONSE: I worked with my colleague in evaluating proposals and counter-proposals made by PSNH, in developing and reviewing testimony, and in providing litigation support.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-8
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-8: Please identify the colleague Mr. Monson [sic] assisted with the evaluation of Public Service of New Hampshire's restructuring proposal.

RESPONSE: Margaret A. Meal, a former principal at MRW & Associates, Inc.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-9
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-9: Please state whether the private client for whom Mr. Monson [sic] was developing estimates of transition costs for Public Service of New Hampshire was the same private client referred to when he indicates he was assisting a colleague.

RESPONSE: Cabletron Systems was a member of New Hampshire Businesses for Fair Electric Rates.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-10
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-10: Please identify the colleague whose testimony Mr. Monson [sic] “support[ed]” with regard to forecasting the transition costs of West Penn Power Company, Pennsylvania Electric Company and Duquesne Light Company.

RESPONSE: Robert B. Weisenmiller, Ph.D.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-11
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-11: Please provide the forecast of transition costs for Southern California Edison cited.

RESPONSE: See Attachment WMECo-IR-3-11.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-12
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-12: Please provide the forecast of California transition costs done on behalf of the California Independent Energy Producers.

RESPONSE: See Attachment WMECo-IR-3-12.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-13
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-13: Please identify the “private client” for whom Mr. Monson [sic] analyzed the cost-effectiveness of the Pilgrim nuclear power plant.

RESPONSE: The Coalition of Non-Utility Generators.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-14
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-14: Please provide the cost-effectiveness analysis of the continued operation of the Pilgrim nuclear power plant performed for a "private client."

RESPONSE: See Attachment WMECo-IR-3-14.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-15
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-15: Please provide a summary of the cost-effectiveness analysis of the continued operation of the Pilgrim nuclear power plant.

RESPONSE: We found that between 1989 and 1993, Pilgrim was somewhat more expensive than BECo's other baseload/intermediate resources. Pilgrim's costs over the period averaged 7.4 cents/kWh, while the costs of BECO's baseload/intermediate resources have ranged from 3.3 cents/kWh to 6.8 cents/kWh.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-16
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-16: Please state the date of the cost-effectiveness analysis of the Pilgrim nuclear power plant.

RESPONSE: Summer of 1994.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-17
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-17: Please state whether the “private clients” referred to by name on page 3 of the testimony are the “private clients” referred to on page 2 of the testimony. If the answer is yes, please explain.

RESPONSE: The private clients referred to by name on page 3 of my testimony are not the same as the private clients referred to on page 2 of my testimony.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-18
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-18: Mr. Monson [sic] states that he has never testified before the Department previously. Please list each state PUC proceedings in which he has submitted pre-filed testimony during the past five years and provide the dates of such testimony.

RESPONSE: California Public Utilities Commission, R. 94-03-031/I. 94-04-032, the California Restructuring Proceeding, "Prepared Direct Testimony of William A. Monsen on Behalf of the Independent Energy Producers Regarding Transition Costs," December 5, 1994.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-19
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-19: Regarding page 6, lines 1-9, please confirm that you believe that WMECO's plan has five components of cost recovery. Please also explain how item 4 on page 6 (lines 1-3) represents cost recovery for WMECO. Please also explain how item 5 on page 6 (lines 5-9) represents cost recovery for WMECO.

RESPONSE: WMECO's proposal has five components. As noted in my testimony on pages 5-6, the first four are cost recovery as defined under traditional cost-of-service ratemaking. The fifth component does not recover direct costs incurred by WMECO. Instead, it provides WMECO with revenues that have not typically been considered a part of WMECO's cost-of-service rates.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-20
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-20: In regard to page 7, lines 4-23, under the column entitled Capital Costs, please explain the difference between the item numbered 1 and the item numbered 2.

RESPONSE: Item 1 refers to the capital costs associated with Millstone 1. Item 2 refers to the capital costs associated with Millstone 2 and 3.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-21
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-21: In regard to page 8, lines 1-2, please explain the economic reasonableness of a cost recovery proposal that does not allow for a return on assets that have been prematurely retired or permanently taken out of service.

RESPONSE: This issue is fully discussed in my direct testimony on pages 15-16. As noted in my testimony, other states have taken similar actions with regards to assets that have been prematurely retired.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-22
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-22: In regard to page 8, lines 30-31, please explain what is meant by the words “bearing any significant risk.” In addition, please explain what was meant by the word “significant.”

RESPONSE: The quote that is cited in the information request does not appear in lines 30-31 on page 8 of my testimony. Instead, I refer to WMECo not “bearing any significant additional risks.” (emphasis added) By significant, I mean that the additional risks being borne by WMECo are small relative to the additional revenues that would be received by WMECo on a *pro forma* basis as a result of the institution of its proposal. Because companies affiliated with WMECo have a majority controlling interest in Millstone 2 and 3, those entities are able to make decisions about the continued operation of Millstone 2 and 3 in the event that the costs of operating these units (i.e., the going-forward costs) exceed the market value of the power generated by these units. This issue is discussed more fully on pages 22-24 of my direct testimony.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-23
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-23: Please state where the significant fluctuation in nuclear operating costs in any particular plant due to normal refueling outages that can occur on a two year cycle is addressed in Mr. Monson's [sic] testimony.

RESPONSE: I assume that the "significant fluctuations" referred to in this question relate to the fact that WMECo would need to procure power at market-based prices while the nuclear units are out on refueling outage. The forecasted costs of operation of the nuclear units including costs incurred for outages would be the costs that are predicted during the *ex ante* forecast of going-forward costs that are generally discussed on pages 35-43 of my direct testimony. It should be noted that if the average annual operating costs for the Millstone units plus the cost of purchased power during planned and unplanned outages is less than the annual average market price of power, then the unit is cost-effective to continue to operate. However, if these forecasted costs exceed the market price of power, then there are lower-cost options available to WMECo and those options should be pursued.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-24
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-24: On page 9 of his testimony, Mr. Monson [sic] proposes a cost recovery treatment for Millstone 2 and 3 (lines 19-26) and states the proposal should be implemented immediately upon decision "rather than when Millstone 2 is on-line (as proposed by the Company)". Please state:

- a. When Mr. Monson [sic] assumes the Department will issue a final decision;
- b. When Mr. Monson [sic] assumes Millstone 2 will be on-line;
- c. If Mr. Monson [sic] calculated the financial implications on WMECo associated with his proposal to implement his proposed methodology immediately.

RESPONSE:

- a. I have not made a forecast of when the Department will issue a decision in this proceeding. However, given the existing schedule, the pace of hearings, briefing, and allowing the Department sufficient time to reach a final decision, it seems clear that the Department should arrive at a final decision in this proceeding after the currently-proposed date upon which Millstone 2 will be back on-line.
- b. I have not developed an independent assessment of when Millstone 2 would return to service. However, based on the response to Information Request AG-12 dated 7/24/98, Q-AG-009-BULK, it appears that Northeast Utilities' own projections are for a restart of Millstone 2 in "Fall 1998".
- c. I have not calculated the financial implications on WMECo associated with implementing my proposal immediately. However, I do note that WMECo has stated publicly that it will have Millstone 2 on-line before December 21, 1998 (i.e., the end of Fall, 1998).

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-25
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-25: If Mr. Monson [sic] has answered in the affirmative in response to Information Request Question 19.c, above, please provide his calculation of the monthly and yearly financial impact upon WMECO of his proposal with respect to Millstone 2.

RESPONSE: Information Request Question 19 does not have a subpart c. I assume that the question refers to Information Request Question 3-24. No such analysis was performed for the reasons stated in WMECo-IR-3-24.c.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-26
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-26: On page 9 of his testimony, Mr. Monson [sic] proposes a cost recovery treatment for Millstone 2 and 3 (lines 19-26). Please state whether Mr. Monson [sic] has calculated the financial implications of his proposal on WMECO. If the answer is yes, please provide the calculations.

RESPONSE: I have not performed any financial analysis of the impact of my proposal upon WMECo. However, since my proposal provides WMECo with revenue based on its cost-of-service for Millstone 2 and 3 (including both a return of and return on undepreciated ratebase), and I assume that the cost-of-service included in WMECo's rates are in fact reflective of WMECo's true cost of service since WMECo has not requested a change in rates under Department rules, then I reached the logical conclusion that cost-of-service recovery with a return of and return on undepreciated ratebase would leave WMECo financially whole with regards to the continued operation of Millstone 2 and 3.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-27
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-27: In regard to page 9, lines 32-34, please explain how the significant fluctuation in nuclear operating costs in any particular plant due to normal refueling outages that can occur on a two year cycle is proposed to be addressed by Mr. Monson [sic].

RESPONSE: I propose comparing the forecasted operating costs and the benchmark revenues over a 30 month cycle, consistent with my proposal for a reopener.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-28
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-28: On page 10, line 1, Mr. Monson [sic] states that “WMECO does not face significant risk of operating at a loss.”

- a. Was this intended to say “WMECO does not face significant risk of Millstone operating at a loss?” If not, please explain.
- b. Please state whether there is any significant risk of either Millstone 2 or 3 operating at a loss in any one particular year. Please supplement the answer with Mr. Monson’s [sic] analysis or analyses showing the conclusions reached.
- c. Please state whether there is any significant risk of either Millstone 2 or 3 operating at a loss for more than one year. Please supplement the answer with Mr. Monson’s [sic] analysis or analyses showing the conclusions reached.

RESPONSE: I assume that the citation to the quoted sentence should be to page 11, line 1 of my direct testimony.

- a. Yes.
- b&c. There is always a significant risk of operating either Millstone 2 and 3 at a loss. Similarly, there is a significant risk that Millstone 2 and 3 would operate profitably. In fact, profitable operations are predicted by WMECo. The probability of operating at a loss or with a profit depend on the skills and capabilities of the entity operating the plant and the market price, among other things. However, the text of this part of my testimony addresses whether WMECo is at any greater risk of operating Millstone 2 and 3 at a loss than they would be under current ratemaking. It is my conclusion that the owners of Millstone 2 and 3 have the option to continue to operate the plants if they are profitable and to shut them down if they are not profitable. This is exactly the action taken by Northeast Utilities with Millstone 1 (i.e., the unit was retired when it no longer appeared to be profitable to continue to operate).

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-29
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-29: In regard to page 10, lines 20-25, please provide the workpapers or any calculations that support the statement that “WMECO could receive well in excess of its authorized rate of return...”

RESPONSE: See pages 23 - 24 of my testimony for a more complete discussion of WMECo’s return on Millstone 2 and 3 and the “additional return” or PBR incentive that WMECo has proposed that it earn. In addition, the workpapers supporting the calculation of WMECo’s authorized return on its investments in Millstone 2 and 3 and “additional return” that WMECo has proposed that it earn are included in Attachment WMECo-IR-3-50.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-30
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-30: In regard to Page 10, lines 20-25, please discuss whether there could be circumstances in which WMECO could receive well below its authorized rate of return. In particular, please discuss the situation in which WMECO's market revenues are less than WMECO's expenses.

RESPONSE: Under WMECo's proposal, the Company would receive a return of and on its unrecovered investments in Millstone 2 and 3 and 75% of the difference between "going-forward" revenues and costs. If, as WMECo has posited, WMECo's market revenues were less than WMECo's expenses, the Company, under its proposal, would bear 75% of these "losses." However, it is my understanding that such circumstances would necessarily need to be of limited duration; if such circumstances continued in the long-term, Millstone 2 and 3 would appear to be uneconomic and would be candidates for retirement.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-31
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-31: In pages 10-11 (carryover sentence), Mr. Monson [sic] states that WMECO's parent, Northeast Utilities, "controls from a financial perspective whether Millstone operates or not... ." Please state if there are any differences in this regard between Millstone 2 and Millstone 3.

RESPONSE: It is my understanding that NU owns 97 percent of Millstone 2 and 68 percent of Millstone 3 and that Millstone is operated by the Northeast Nuclear Energy Company, which is a wholly owned subsidiary of NU.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-32
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-32: On page 10-11 (carryover sentence), Mr. Monson [sic] states that WMECO's parent, Northeast Utilities "controls from a financial perspective whether Millstone operates or not... ." Please define "financial perspective" as used here.

RESPONSE: By "financial perspective," I mean that NU will assess the costs and benefits of continued operations of both units in both the short- and long-term. If NU decides that a unit is not economic, then NU would control the decision to retire the unit. WMECo, as a minority owner, would not be able to take this type of action unilaterally.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-33
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-33: On pages 10-11 (carryover sentence), Mr. Monson [sic] states that WMECO's parent, Northeast Utilities, "controls from a financial perspective whether Millstone operates or not... ."

- a. Please explain the time frame over which a decision to decision [sic] to retire an operating unit should be made.
- b. Please explain if the decision to retire a unit should be based on a calculation of the economics of a plant over one year, five years or the expected life of the facility.

RESPONSE:

- a. In general, an asset should continue to operate if its revenues are greater than its variable costs and should not continue to operate if its variable costs exceed its revenues. Such an analysis should consider costs and benefits in both the short- and the long-term. For example, it is possible that variable operating costs could exceed revenues in one season, in which case the unit should not operate in this season, but the unit could be cost-effective over the longer term, in which case the unit should operate when revenues exceed costs.
- b. In general, such an analysis should be considered over the life of the unit. Bear in mind, however, that such an analysis might determine the life of the unit. For example, if revenues exceed variable costs for five years, but after the fifth year, variable costs exceed revenues, the unit should be closed after the fifth year. Note that this type of analysis is generally used for resources competing in a competitive market and assuming that the resource is attempting to profit maximize. In a competitive market, owners of such an asset would be able, over the longer term, to offset losses and gains or operate only when profitable. WMECo's Millstone resources are not yet operating in a competitive environment, primarily because WMECo receives a guaranteed return on its unrecovered investments.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-34
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-34: In regard to page 11, lines 16-17, please explain whether the Nuclear Regulatory Commission could be expected to have any response to incentive regulation regarding “strong incentives to find operating efficiencies”? Please explain whether any such response has been factored into your proposals.

RESPONSE: It is my understanding that incentive regulation has been used for a number of nuclear facilities around the country (e.g., Nine Mile 2 and Ginna in New York, Diablo Canyon and the San Onofre Nuclear Generating Station in California). Also, incentive regulation (with fixed prices defined in cents per kWh) is currently being used for Pacific Gas & Electric’s Diablo Canyon Nuclear Power Plant and Southern California Edison’s San Onofre Nuclear Generating Station. Safety issues were raised in the Diablo Canyon proceeding. The California Public Utilities Commission, in D. 97-05-088, concluded the following:

San Luis Obispo Mothers for Peace, Rochelle Becker, and Life on Earth Planet (Mothers for Peace) specifically focused on the safety consequences of the ratemaking proposals for Diablo Canyon. They believe PG&E’s current proposal presents serious conflict between safety and profits.

* * *

This Commission is concerned and committed to the highest degree of nuclear safety at Diablo Canyon, and at all nuclear facilities. But it is the Nuclear Regulatory Commission that has nuclear safety jurisdiction over Diablo Canyon. Our participation is to assure adequate funding to operate safely, to assure responsiveness of the Independent Safety Committee, and to make appropriate recommendations when needed. We believe this decision, under the rate freeze, provides more than adequate funding to operate Diablo Canyon safely. And we are confident that the Independent Safety Committee will discharge its functions responsibly. We have considered the concerns of the Mothers for Peace and are of the opinion that they have been adequately met, to the extent of our jurisdiction, in our findings on sunk costs and the ICIP.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-35
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-35: In regard to page 12, lines 14-16, please list each aspect of Mr. Monson's [sic] proposal that provides WMECO with significant financial incentives for bringing Millstone 2 back on-line as scheduled that WMECO does not already have under existing regulation and under its proposal.

RESPONSE: It is my understanding that currently WMECo collects revenues associated with Millstone in its rates, including a return of and on its investments and to cover its variable costs. Under WMECo's proposal, it would continue to recover these costs even if these units are not operating; under my proposal, WMECo would receive no recovery of its variable costs, unless it were operating Millstone.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-36
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-36: Please state whether the proposals in Mr. Monsen's testimony were developed pursuant to an understanding of the prohibition on confiscation in the Massachusetts Constitution.

RESPONSE: Although I believe that my proposal is consistent with that provision, I am not offering an expert opinion on any provisions of the Massachusetts Constitution. Such legal issues will be briefed by Counsel for DOER. MA. CONST. Part 1, Art. X.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-37
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-37: In regard to page 16, lines 19-22, please state whether there is a difference between “abandoned property” as used in this reference and a plant closed for the economic benefit of ratepayers.

RESPONSE: The Fitchburg decision quoted on page 16, lines 19-22 uses the term “abandoned property” to include a situation where the company found the cost of compliance with anti-pollution regulations excessive, decided to retire the properties, and purchased replacement capacity. Whether or not that constitutes “a plant closed for the benefit of ratepayers” depends on what WMECo means by that term. They may be the same or different depending on what the Company means by that term.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-38
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-38: In regard to page 17, lines 8-10, please provide all analyses prepared that examined the financial impacts on WMECO of your proposal regarding the treatment of Millstone 1. Please provide all accounting impacts and accounting entries that would be required as the result of implementing your proposed treatment.

RESPONSE: I have not performed any analysis on the financial impacts on WMECo of this proposal. Please note, the difference between WMECo's proposal and my proposal would be that under WMECo's proposal, WMECo would receive \$84,060 million as a result of securitization, whereas under my proposal, WMECo would receive an amortization of these costs over 12 years (see Exhibit HYY-6R1, page 2 of 14). While these numbers are the same in nominal terms, the net present value of the two streams would differ.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-39
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-39: In regard to page 19, lines 9-10, explain how, in the context of the 25/75 sharing of benefit and risk in WMECO's PBR proposal, the "PBR would guarantee WMECO recovery of its going-forward costs for Millstone 2 and 3."

RESPONSE: If, as indicated by WMECo, Millstone 2 and 3 are economic on a going-forward basis, then WMECo is guaranteed recovery under its proposed PBR because any losses would be offset by gains in future years. That gains are expected to far exceed losses was one of the primary reasons for bringing these units back on line and for their continued operation. If WMECo believes that there is considerable uncertainty regarding the future profitability of Millstone 2 and 3 and the ability of Millstone 2 and 3 to cover their "going forward" costs, this should have been revealed in WMECo's Revised Plan. It is important to bear in mind that the sharing percentage is not the only consideration of importance but that the likelihood of any particular outcome is also important. If, for example, there is a 90% chance that WMECo's revenues will exceed its going-forward costs and only a 10% chance that the reverse is true, then the risk to ratepayers and shareholders is not symmetric. This would only be true if, as in my proposal, the revenue benchmark is set at WMECo's future expected costs. In this case, the likelihood that costs are below or above the revenue benchmark would be symmetric.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-40
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-40: On page 19, lines 11-13, Mr. Monson [sic] states that the Company's proposed PBR approach gives WMECO the opportunity to receive significantly more than its authorized rate of return for these units.

- a. Please state what the authorized rate of return for these units is;
- b. Please provide the calculations and work papers relied upon to make this statement.
- c. Please state whether Mr. Monson [sic] views WMECO's PBR mechanism as an important factor in it [sic] overall restructuring plan.

RESPONSE:

- a. The authorized rate of return on equity is 12 percent, but was lowered to 11 percent, based upon the magnitude of WMECo's transition charge.
- b. See Exhibit 13E, Schedule 1, page 12 of 14.
- c. I believe that a PBR mechanism can be an extremely important part of WMECo's restructuring plan, but I believe that revenues in excess of going-forward costs should be used to mitigate transition costs.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-41
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-41: Please state what level of incentive Mr. Monson [sic] believes that WMECO and its affiliates and parent company have to return Millstone 2 to service with or without any PBR mechanism. Please explain in detail Mr. Monson's [sic] answer.

RESPONSE: Please see my response to WMECo-IR-3-35.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-42
Witness: Mr. Monsen
Dated: November 6, 1998

- WMECo-IR-3-42: Please explain and quantify Mr. Monson's [sic] assertion that Northeast Utilities might continue to operate one of the Millstone units even if it is uneconomic to operate. In this answer please:
- a. Quantify the effect on Northeast Utilities and its affiliates overall of the scenario Mr. Monson [sic] posits; and
 - b. Quantify the effect on WMECO of the scenario Mr. Monson [sic] posits.

RESPONSE: NU might continue to operate one of the Millstone units even if it is uneconomic to operate in order to earn a return on the unrecovered portion of its investment. For example, assume that WMECo is unable to securitize the costs associated with Millstone 2 and 3, that WMECo earns a return on the unrecovered portion of Millstone 2, and that "going forward" costs exceed revenues by \$5 million for Millstone 2. In this instance, ratepayers would bear \$1.25 million and shareholders would bear \$3.75 million. However, continued operation of Millstone 2 would ensure that WMECo earns its return on the unrecovered portion of its investment in Millstone 2, which is greater than \$3.75 million, thereby providing WMECo (and NU) with a positive return. If Connecticut were to continue with cost-of-service, then NU would receive its going-forward costs plus a return on and return of its undepreciated capital. Thus, it would have no incentive to shut down the uneconomic unit.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-43
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-43: In regard to page 22, line 1, please provide the basis for your statement that an audit under WMECO's proposal would not assess the reasonableness of the going forward costs.

RESPONSE: My testimony clearly provides the basis for my opinion that WMECo's proposal would not assess the reasonableness of the going forward costs:

“WMECo does not clearly define the scope of such an audit, nor specify whether the audit would assess the reasonableness of the going-forward costs or simply verify that WMECo's expenditures were correctly booked.”

To support this conclusion, I drew upon WMECo's assertion that “Revenue from the sale of Millstone 2 and 3's capacity and energy produced will be reduced by total reasonable operating costs including return of and on capital additions incurred after December 31, 1998 on a cost-of-service basis not otherwise recovered in the transition charge as described above.” Revised Plan, page 40.

However, I could not find any other reference to when the “reasonableness” of the total operating costs would be determined (such as by an audit filed with the DTE), nor how “reasonableness” was defined.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-44
Witness: Mr. Monsen
Dated: November 6, 1998

- WMECo-IR-3-44:
- (a) In regard to page 22, lines, lines 10-12, please state and discuss how WMECO's proposal could encourage operation of both Millstone units even if one unit is uneconomic.
 - (b) Please explain what Mr. Monson [sic] means in stating that "the price of entitlements to energy and capacity from Millstone 2 and 3 should be revised so that the value for power is derived from a larger market" (page 22, lines 13-15). Explain particularly what is meant by the term "larger market" and explain fully how that larger market is larger than the market envisioned in WMECO's proposal.

- RESPONSE:
- (a) See my response to WMECo-IR-3-42.
 - (b) Mr. Richard A. Soderman indicated in his testimony that "WMECo's Plan calls for selling the available output of these facilities into the wholesale market. WMECo plans to maximize the revenues from this sale by offering entitlements in the available energy and capacity of Millstone 2 and 3 for a period starting on the date that Standard Offer Supply is competitively sourced (or, for Millstone 2, the date the unit returns to service if later than the date that the Standard Offer Service is competitively sourced) and ending no later than January 1, 2004."

I propose using a "larger market" to ensure that the price for output from Millstone is a price from a market with many buyers and many sellers. Prices from bilateral transactions such as those proposed by WMECo should, on average, tend toward spot prices. However, there is no assurance that any one transaction would provide a more advantageous price for power than would the spot market.

WMECo has simply asked that we assume any negotiated sale is reasonable. I believe a transparent index of market clearing price is a more appropriate benchmark. The California market provides a useful analogy. While many customers have negotiated bilateral deals, many determine whether these are "good" deals by reference to the California Power Exchange, which provides a more transparent price.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-45
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-45: Please state whether Mr. Monson [sic] believes that the Department will allow securitization of any transition costs in this proceeding.

RESPONSE: No, Mr. Monsen is aware that the Department will not decide in this proceeding which costs, if any, will be securitized. Please see July 22, 1998 Transcript, p. 21, where Hearing Officer LeComte ruled that the Department will consider the securitization of transition costs in the next phase of this proceeding.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-46
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-46: Please state the basis for assuming that 90% of Millstone 2 and Millstone 3 will be securitized (Page 23, line 10).

RESPONSE: This is based upon WMECo's proposal (see Exhibit 13E, Schedule 1, page 14 of 14). This is not my proposal.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-47
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-47: Please state whether Mr. Monson [sic] agrees that 90% of the transition costs for Millstone 2 and 3 should be securitized.

RESPONSE: I do not agree that 90% of the transition costs for Millstone 2 and 3 should be securitized at the present time. DOER's witness, Mr. Henry Yoshimura, has addressed these issues in his direct testimony in this proceeding.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-48
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-48: Please state what amount of sunk costs are used in the calculation referred to on page 23, lines 8-14.

RESPONSE: The amount of sunk costs is \$105,389,000 for Millstone 2 and \$258,715,000 for Millstone 3. These estimates of sunk costs were derived by WMECo.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-49
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-49: Please state what amount of securitization is used in the calculation referred to on page 23, lines 8-14.

RESPONSE: I assumed, for purposes of this calculation only, that 90% of the sunk costs associated with Millstone 2 and 3 would be securitized. As I stated in WMECo-IR-3-47, I do not support securitization of these sunk costs at the present time.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-50
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-50: Please show how the return on Millstone 2 and 3 was calculated on page 24, Table 2. Please also provide the workpapers showing the derivation of all numbers on Table 2 on page 24.

RESPONSE: See Attachment WMECo-IR-3-50.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-51
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-51: Please show what the "Additional Return" in column three of Table 2 on page 24 is as a percentage of WMECO's overall return. Please show workpapers.

RESPONSE: This column was calculated by taking the PBR credit obtained from Exhibit 13E, Schedule 1, page 3 of 14, column L and multiplying this amount by three. The rationale is that column L represents the PBR for nuclear units, or the 25 percent credit to ratepayers. Thus, to obtain the 75 percent payment to shareholders, we multiplied the 25 percent credit to ratepayers by three.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-52
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-52: Please explain if the figures shown in columns 2 and 3 of Table 2, lines 4-9, are revenues or earnings.

RESPONSE: The figures in columns 2 and 3 of Table 2 are revenues.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-53
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-53: Mr. Monson [sic] states that “Northeast Utilities can obtain alternate power from market sources rather than operate a Millstone unit that is ‘out of the market’.” Please list each of the factors that Mr. Monson [sic] understands would be relevant to Northeast Utilities from a financial perspective in making a decision not to operate a Millstone unit.

RESPONSE: A number of factors would be relevant including, but not limited to (1) whether revenues exceeded or fell below going forward costs for the nuclear units, (2) ability and cost of ramping down operation of its nuclear units, (3) the cost and availability of alternative sources of generation, (4) Northeast Utilities’ risk preferences, and (5) rate recovery for Millstone 2 and 3 in states other than Massachusetts.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-54
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-54: Mr. Monson [sic] states that “Northeast Utilities can obtain alternate power from market sources rather than operate a Millstone unit that is ‘out of the market’.” Please quantify the financial factors that Mr. Monson [sic] understands would be relevant to Northeast Utilities in making a decision not to operate a Millstone unit and demonstrate how these financial factors would lead to the result Mr. Monson [sic] posits.

RESPONSE: Northeast Utilities should well understand the factors that enter into the decision to obtain alternate power from market sources rather than operate a Millstone unit that is “out of the market,” as I assume that it just went through such an exercise in determining whether to continue to operate Millstone 1 or to shut it down. As Mr. Morris indicated in his direct testimony, the financial factors that entered into the decision to retire Millstone 1 are not simply the present value of the net benefits of continued operation of the unit, although this is an important element. Other key factors include risk preferences, uncertainty in key elements of the forecast of market prices and costs of continued operation, cost of capital, access to capital markets, and other uses of corporate funds.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-55
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-55: Mr. Monson [sic] states that “Northeast Utilities can obtain alternate power from market sources rather than operate a Millstone unit that is ‘out of the market’.” Should this be interpreted to mean that the Millstone units could be temporarily shutdown? In addition, should this be interpreted to mean that a nuclear plant’s operation can be cycled?

RESPONSE: I assume that by temporarily shut down, WMECo means that the Millstone units can be shut down for a period as short as several days and as long as several months or years. Given this assumption about the definition of “temporarily shutdown”, I believe that nuclear units can be temporarily shutdown. Even though these units can be shut down temporarily, this response should not be interpreted as meaning that the units can be cycled on a daily basis.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-58
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-58: Mr. Monsen states on p.25 that WMECO would have an incentive not to bring Millstone 2 back on-line until the Department issues a decision in this proceeding.

- a. What is WMECO's entitlement in Millstone 2?
- b. Explain in full Northeast Utilities' and each of its other operating companies' incentive not to bring Millstone 2 back on-line until after the Department issues a decision in this proceeding?
- c. Please explain how the majority owner of Millstone 2 benefits by any delay in the on-line date of Millstone 2. Please quantify this response.

RESPONSE:

- a. WMECo's entitlement in Millstone 2 is 19 percent.
- b. My main point is that the PBR should begin when the Department issues its decision. My rationale is as follows: under current ratemaking treatment, WMECo receives revenue for Millstone based upon cost-of-service ratemaking. WMECo has proposed no changes to its ratemaking treatment for its nuclear assets. Under WMECo's proposal, it would share 75 percent of revenues in excess of costs and 75 percent of costs in excess of revenues. If Millstone is not running on the date of the decision, WMECo would incur losses that are partially offset by cost-of-service revenues (since the WMECo PBR would not be in effect yet). On the other hand, if the PBR went into effect on the date of the decision and Millstone 2 were not operating, then the Company would be responsible for 75 percent of the losses.
- c. WMECo does not appear to benefit from a delay in the start date for Millstone 2, but if Millstone 2 is indeed delayed, WMECo's risks are less under current ratemaking treatment than under its proposed PBR.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-59
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-59: Please explain how WMECO's ratepayers are harmed if a WMECO affiliate bids the highest price on an auction of entitlements to Millstone 2 and 3 energy and capacity. Please quantify this explanation.

RESPONSE: This was the subject matter of Mr. Yoshimura's pre-filed testimony. Mr. Yoshimura was available for cross-examination on this subject on October 29-30, 1998.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-60
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-60: Please explain how WMECO's ratepayers would be benefitted if a WMECO affiliate bids the highest price on an auction of entitlement to Millstone 2 and 3 energy and capacity. Please quantify this explanation.

RESPONSE: Please see the response to WMECo-IR-3-59.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-61-62
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-61-62: Given Mr. Monson's [sic] understanding of the "sharing mechanism" referred to on page 25, line 16, please provide in detail the financial impact on WMECO if an affiliate were to outbid all other competitors due to this sharing mechanism (see page 25, lines 14-17).

RESPONSE: Please see the response to WMECo-IR-3-59.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-63
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-63: In regard to page 25, lines 14-17, please provide in detail the financial impact to WMECO customers (ratepayers) if a WMECO affiliate paid a higher price for the output of the Millstone units?

RESPONSE: Please see the response to WMECo-IR-3-59.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-64
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-64: In regard to page 25, lines 14-17, please provide the financial impact on the WMECO affiliate if it outbid all other competitors simple because of the sharing mechanism.

RESPONSE: Please see the response to WMECo-IR-3-59.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-65
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-65: On page 24, Mr. Monson [sic] states that Northeast Utilities can game the system by choosing not to operate a Millstone unit if it is “out of the money.” On page 25, Mr. Monson [sic] states that WMECO’s PBR proposal gives WMECO “the incentive to continue to run an unprofitable Millstone unit as long as profits from one more than offset losses from the other.” Please explain the apparent inconsistency.

RESPONSE: My testimony does not discuss “gaming” the system on page 24. The point of my testimony on page 24 is that NU could choose to temporarily shut down one or both of the Millstone units if market revenues were so low as to not support continued operation in the short term (e.g., in California this past spring, power prices in the California Power Exchange were extremely low or, in some cases, zero due to hydroelectric generation and must-take resources). In this way, WMECo could avoid losses. If “going-forward costs” increase well above market prices, then the Company should assess the viability of continued operation, as it has done in the past. The concern raised on page 25 of my testimony goes to another matter, namely that pooling the net revenues from the Millstone units prior to allocating savings could send an improper price signal to NU. I recommend that NU evaluate the continued economic viability of the two Millstone units separately. By pooling net revenues, the price signals regarding the continued operation of a non-economic unit might get clouded.

WMECo-IR-3-66: On page 28, Mr. Monson [sic] states that the opportunity to “earn return of and on unrecovered capital, as long as the units are in operation, will provide an incentive to operate... .” On page 31, Mr. Monsen state [sic] that [s]hould going-forward costs exceed market revenues, Northeast Utilities can act quickly to temporarily or permanently terminate power deliveries from an unprofitable unit.” Please explain Mr. Monson’s [sic] understanding of the various significance of the various incentives to operate or not operate one of the Millstone units. If appropriate, please provide a matrix.

RESPONSE: The most important incentive is to ensure that the nuclear units continue to operate if they are cost-effective and close down if they are not cost-effective on a going-forward basis. It is extremely important that operation of the Millstone units not increase stranded costs. Moreover, the restructuring law specifically requires that WMECo reduce stranded costs to the maximum extent possible.

With regard to incentives, WMECo may believe that the 75/25 sharing mechanism is necessary to provide the Company with sufficient positive incentive to continue to operate the Millstone units. It is my position that this “added” incentive is unnecessary as WMECo currently receives a return on its unrecovered investments in Millstone and, moreover, that this “added” incentive is contrary to the legal mandate to reduce stranded costs to the maximum extent possible. While WMECo’s sharing mechanism ensures that shareholders bear most of the risk if there are losses, I would note that extended losses should not occur if WMECo has correctly forecast that these units will be economic, and indeed profitable, on a going-forward basis.

In addition, as indicated in my testimony, I have recommended two separate proposals. First, I have recommended that WMECo recover the costs of operation of Millstone based on the forecasted cost of operations. WMECo may be concerned that it could have an extended outage or refueling during which time the Company will receive no revenues.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-66
Witness: Mr. Monsen
Dated: November 6, 1998
Page 2 of 2

However, the forecast would necessarily include a forecast of all costs over the next five years as well as expected generation. A forced outage or refueling outage would increase costs and decrease generation. This would increase the per-kWh PBR benchmark target for operating costs.

My alternative recommendation is simply that WMECo receive its actual costs of continued operation of the Millstone units and that ratepayers receive 100 percent of the difference between Millstone revenues and going-forward costs (with the provision that ratepayers are not responsible for any costs that exceed revenues). This proposal is based upon the fact that these units appear to be cost-effective on a going-forward basis.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-67
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-67: Please explain why in certain instances Mr. Monson [sic] uses the term Northeast Utilities in connection with the operation and control of the Millstone units and at other times uses the term WMECO. Are these terms being used interchangeably or are they meant to refer to different legal entities?

RESPONSE: I have used the term NU because WMECo has only a small portion of the entitlements of Millstone, while NU is the entity that controls both Connecticut Light and Power as well as WMECo, which are the main owners of the Millstone units. Thus, NU has the ability to influence if not dictate policy of WMECo. Therefore, when considering the continued operation of Millstone, it is important to understand the incentives of both WMECo and NU.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-68
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-68: Please state whether Mr. Monson [sic] proposes to base revenues for Millstone units 2 and 3 on spot energy and capacity prices from ISO-NE.

RESPONSE: Yes.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-69
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-69: Please state whether Mr. Monson [sic] proposes that no Millstone PBR begin until spot energy and capacity prices are available from ISO-NE.

RESPONSE: No. If there is a delay, the DTE should substitute an appropriate interim price basis.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-70
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-70: Please state Mr. Monson's [sic] understanding of the financial implications to WMECO if the asymmetric risk sharing set forth on page 30 is adopted.

RESPONSE: My testimony does not state that the risks inherent in the risk sharing mechanism on page 30 are asymmetric. It states that the proposal "appears to have asymmetric risk sharing". However, the proposal balances risks. It is important to bear in mind that the sharing percentage is not the only consideration of importance but that the likelihood of any particular outcome is also important. If, for example, there is a 90% chance that WMECo's revenues will exceed its going-forward costs and only a 10% chance that the reverse is true, then the risk to ratepayers and shareholders is not symmetric under WMECo's proposal since WMECo receives 75% of an upside that, in this case, is highly probable. Under my preferred proposal (that the Department adopt a forecast of going-forward costs), the risks to ratepayers and shareholders would be symmetric, as the benchmark would be set at WMECo's future expected costs. In addition, for both of my proposals, shareholders would continue to receive a return of and return on their unrecovered investment through the Transition Charge.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-71
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-71: In regard to page 31, lines 14-15, please provide the operational basis for asserting that "Northeast Utilities can act quickly to temporarily...terminate power deliveries from an unprofitable unit."

RESPONSE: First, let me say that hopefully this is an unlikely scenario because, as projected by WMECo, the Millstone units are expected to be cost-effective on a going-forward basis. However, if market prices are lower than expected by WMECo, then NU will have to carefully monitor operating costs and market prices to assure continued cost-effective operation. Two cases should be considered:

- *Low market prices.* If market prices are lower than expected over a very short period (e.g., overnight), then it is my understanding that NU could not cycle these generators. However, if prices are expected to be low for a longer period (e.g., a few weeks), then NU might want to consider temporarily shutting these units down. It may be possible to schedule certain deferred maintenance during such an outage as well. If market prices are expected to be lower for more systemic and long term reasons (e.g., new generation coming on-line), then a more serious consideration of the cost-effectiveness of these units is warranted.
- *Higher-than-expected going-forward costs.* If going-forward costs are higher than expected, then a short-term shut down is unlikely to help. However, under my proposal, WMECo could attempt to exercise its option for the re-opener mechanism that I proposed in my testimony. If higher going-forward costs would make the Millstone units uncompetitive in the market, then WMECo and ratepayers would both have an incentive to consider long-term shutdown or retirement of the units.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-72
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-72: In regard to page 34, lines 16-19, please state, pursuant to the proposal in the testimony, if the WMECO were to enter into a bilateral contract for the Millstone output, who would bear the risk if the price received under such a contract were to turn out to be below the ISO-NE price?

RESPONSE: In such a case, WMECo would have to compensate ratepayers for the difference between the ISO-NE price and the bilateral contract price.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-73
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-73: In regard to page 34, lines 16-19, please state, pursuant to the proposal in the testimony, if the WMECO were to enter into a bilateral contract for the Millstone output at a price in excess of the ISO-NE spot price, who would receive the benefit of the higher price?

RESPONSE: I recommend that WMECo receive the difference between the bilateral price and the ISO-NE price.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-74
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-74: Please explain the basis for Mr. Monson's [sic] statement that the sale price of entitlements in the Millstone units could be subject to manipulation by WMECO or other parties (page 34).

RESPONSE: This issue was the subject of Mr. Yoshimura's testimony. He was available for cross-examination on October 28-29, 1998.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-75
Response by Counsel
Dated: November 6, 1998

WMECo-IR-3-75: Please provide the analysis Mr. Monson [sic] relied upon to conclude that WMECO or other parties could manipulate the sale price of entitlements in the Millstone units (p. 34).

RESPONSE: This issue was the subject of Mr. Yoshimura's testimony. He was available for cross-examination on October 28-29, 1998.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-76
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-76: Please confirm that under Mr. Monson's [sic] revenue pricing proposal WMECO shareholders would keep any difference in price between the spot energy and capacity price and the price received from the sale of entitlements.

RESPONSE: Yes, WMECo would keep any position differences but would bear the cost if the spot energy and capacity price were above the price for the sale of the entitlements.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-77
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-77: Please confirm that on page 11 an ex-post determination of costs is an area of “difference” with the Company’s proposals and on page 35 one of Mr. Monson’s [sic] operations is an ex post determination of costs.

RESPONSE: Yes and no. Yes, this is a difference between the Company’s proposal and my preferred proposal, which is an *ex ante* forecast of going-forward costs. No, this is not a difference between the Company’s proposal and my second, alternate proposal, which recommends different sharing percentages.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-78
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-78: Please explain the procedural steps you envision as necessary for the Department to approve the forecast of going-forward costs for Millstone 2 and 3.

On page 38, you provide three possibilities for an ex ante determination of going-forward costs for Millstone 2 and 3. Please state whether you have a preference for any of these possibilities or if they are equally preferable.

RESPONSE: I would anticipate that, similar to any prospective ratemaking proceeding, the Company and intervenors would present evidence regarding their respective views of going-forward costs for the Millstone units. The parties might in fact settle on a level of going-forward costs prior to submission of evidence. The Department would weigh the evidence presented to it and issue a ruling.

With regard to the alternative proposals for determining going-forward costs, I do not have a preference between the three alternatives. However, the Department might have a preference, which is the reason I outlined these alternatives.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-79
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-79: Please reconcile your statements that an ex ante determination of going forward costs should not extend the proceeding significantly (page 38) with your statement that an ex ante proceeding “would likely be...highly contentious” (page 43).

RESPONSE: It is my understanding that it might not extend this proceeding significantly because the Attorney General has already proposed *ex ante* estimates. However, even if different parties have already developed estimates of going-forward costs, it is also true that it is likely that there would be some significant differences in opinion regarding the reasonable level of going-forward costs for the Millstone units. These differences of opinion could result in a highly contentious proceeding.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-80
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-80: Please explain whether the ex ante determination of going forward costs would occur prior to or after Phase II of this proceeding.

RESPONSE: I recommend that it be done as soon as possible.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-81
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-81: Please confirm that the first possibility for an ex ante determination listed on page 38, lines 11-15, requires the DOER and other interested parties to develop estimates for cohort units.

RESPONSE: The first possibility for *ex ante* determination of going-forward costs would not require any party other than WMECo to develop estimates of going-forward costs. Any interested party could choose to participate in this proceeding.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-82
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-82: Please explain in regard to the second possibility for an ex ante determination listed on page 38, lines 15-21, what you anticipate the "formal investigation into the going-forward costs of Millstone 2 and 3" will entail. Please also state whether it will or could include the need for the DOER and other interested parties to develop estimates for cohort units specified in the first possibility (lines 11-15).

RESPONSE: This alternative, as well as the third alternative outlined in my testimony, would have the same level of investigation into the going-forward costs of the Millstone units as would the first alternative proposed in my testimony. See Response to WMECo-IR-3-76.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-83
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-83: Please explain in regard to the third possibility for an ex parte [sic] determination of Millstone 2 and 3 costs (page 38, lines 21-24) what the "investigation into the going-forward costs of these units" means. Please specifically state whether it is intended to be the same "formal investigation into the going-forward costs of Millstone 2 and 3" that was a part of the second possibility (page 38, lines 15-21).

RESPONSE: See Response to WMECo-IR-3-82.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-84
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-84: Please provide the portion of the Connecticut restructuring legislation referred to on page 39, line 9.

RESPONSE: The reference in the text of my testimony is incorrect. The proper reference is new Section 7(c)(3). This document is publicly available.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-85
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-85: Please state whether the Connecticut restructuring legislation referred to on page 39, line 9, refers to Western Massachusetts Electric Company.

RESPONSE: Page 39, line 9 refers to development of a forecast of going-forward costs for Millstone 2 and 3, which would be subject to the Connecticut restructuring legislation. In this proceeding, WMECo has asked the Department to delay certain elements of its restructuring plan in order to coincide with the restructuring of its parent, Northeast Utilities, under Connecticut law.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-86
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-86: Please state whether the Connecticut restructuring legislation referred to on page 39, line 9, refers to Northeast Utilities.

RESPONSE: Yes. Also, see my response to WMECo-IR-3-85.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-87
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-87: Please provide your opinion based on the Connecticut legislation you cite as to when any forecast of costs of nuclear generation of comparable assets will be developed.

RESPONSE: That process is ongoing.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-88
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-88: Please provide your expert opinion based on the Connecticut legislation you cite as to when any forecast of costs of nuclear generation of comparable assets will be adopted by the Connecticut Department of Public Utility Control.

RESPONSE: I am unable to estimate when a forecast will be adopted by the Connecticut Department of Public Utility Control.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-89
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-89: Please state whether the decision in D.T.E. 97-120 should be held in abeyance should the forecast of operating costs for nuclear generation that you reference on page 39, lines 5-11 is not concluded prior to the prior to the time in which D.T. E. 97-120 would otherwise be ready for Department decision.

RESPONSE: No. The DTE could adopt a reasonable placeholder forecast, subject to further review, if necessary, to implement a PBR mechanism as soon as possible in Massachusetts. In the alternative, the Company could seek to settle this issue with interested parties on a multi-state basis in advance of any DTE determination.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-90
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-90: Please state whether you advocate the adoption of the forecast of costs of nuclear generation of comparable assets referred to on page 39, line 9, without independent review by the Department.

RESPONSE: No, I believe an independent review by the Department would be necessary.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-91
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-91: Please state your rationale for the use of 15% as the level at which WMECO would be able to request a reopener if going-forward costs exceeded the adopted forecast (page 39-40).

RESPONSE: The 15% level was selected to balance the needs of WMECo and the incremental administrative burden associated with the re-opener proceeding. However, given WMECo's *pro forma* estimates of the cost-effectiveness of the Millstone units, it appears unlikely that such a re-opener would be needed.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-92
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-92: Please provide any analyses in which the potential financial impact on WMECO was quantified should the actual going forward costs exceed the adopted forecast by 15% error (see p. 40, line 1).

RESPONSE: No such analysis was performed. See Response to WMECo-IR-3-91.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-93
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-93: Please explain the considerations involved in WMECO, as a minority entitlement owner in Millstone 2 and 3, shutting down the units (see page 40, line 11).

RESPONSE: In general, I believe that public policy considerations dictate that if a generation asset is cost-effective to operate on a going-forward basis, it should continue to operate, but if a generation asset is not cost-effective on a going-forward basis, it should not continue to operate. Given the precedent regarding Millstone 1, it is my understanding that a decision to shut down a unit that is not cost-effective would need to be made by NU. In the updated Continued Unit Operation studies referred to in WMECo's direct testimony, NU assessed the benefits "to NU customers" and I presume that includes WMECo customers as well. Thus, if this analysis is conducted based upon savings to "NU customers," I presume NU will ultimately make this decision.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-94
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-94: Please explain your understanding of why Northeast Utilities would continue to operate Millstone 2 and 3 if such operation was uneconomic (page 41, lines 5-7).

RESPONSE: My understanding is based upon recent history and continued operation of certain nuclear units that appear only marginally cost-effective at best. The reasons for this are likely to be many. Under cost-of-service ratemaking, utilities generally receive return of and on used and useful assets. Thus, utilities generally have incentives to run most of their generation assets to obtain used and useful recovery.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-95
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-95: Please explain how your model would treat the recovery of Millstone 2 and 3 costs for WMECO costs if going forward costs were less than market prices but more than the forecast adopted by the Department pursuant to your proposal. Please reference page 41, lines 9-13, in your answer.

RESPONSE: As explained in my testimony, for the most part WMECo would have to absorb these losses. However, please note that WMECo would also be receiving a return on its investment at the same time. Recognizing that such a circumstance could send incorrect signals by encouraging an economically cost-effective unit to not operate, I have indicated that there should be a reopener, as described on page 40 of my testimony.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-96
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-96: On page 41, lines 19-20, please provide the basis for the statement that “market value is directly related to operating costs”. Please also explain this statement in light of recent generating asset sales (both nuclear and non-nuclear).

RESPONSE: One way that assets are market valued is to take the net present value of the future revenues less costs. If costs are projected to be lower, market value would be estimated to be higher. The sales price of generators is determined based on a number of factors in addition to operating costs, such as market price, ability to sell ancillary services, and synergies with other generators in a portfolio. The market value is also directly related to these factors.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-97
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-97: On page 41, line 23, please explain what the words “this proposal” refers to. In particular please explain why “this proposal”, which appears to be a proposal involving a forecast of going-forward costs, “mitigates most of the forecasting risk associated with a forward-looking estimate of going forward costs” (pages 41, line 23, page 42, line 1).

RESPONSE: “This proposal” refers to my proposal to forecast going-forward costs. As explained on page 42 of my testimony, with a contract reopener, some of the risk that the forecast is wrong is mitigated since either party can, under certain circumstances, seek to reopen and revise the forecast.

Western Mass. Electric Company
D.T.E. 97-120
WMECo-IR-3-98
Witness: Mr. Monsen
Dated: November 6, 1998

WMECo-IR-3-98: Please explain if the PBR discussion on page 42, lines 8-17 apply [sic] only to the *ex ante* determination of going-forward costs discussed on pages 35-41 or does it also apply to the *ex post* determination set forth subsequently in your testimony? That is, do you also consider the *ex post* determination you set forth on pages 43-45 a PBR approach?

RESPONSE: This discussion applies to the *ex ante* approach. I do not believe an *ex post* determination is necessarily a PBR proposal.